

GEORGE MORRIS CENTRE

Canada's Cross Border Agri-Food Trade: Lost in Translation

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Introduction

Over the past several years, the Government of Canada has undertaken a very ambitious trade policy to improve Canada's economic performance through the successful negotiation of a series of bilateral and multilateral trade agreements. Canada has now completed several smaller bilateral/multilateral agreements with the full impacts still pending. Canada is currently involved in a number of new bilateral trade discussions with larger emerging nations, as well as nearing completion of its CETA negotiations with the European Union. Canada is also a full participant in the ongoing Trans Pacific Partnership negotiations. These are all considerable public policy undertakings aimed at improving overall market access, increasing economic opportunities within Canada and in new markets, and a critical part of the federal government's drive towards improved long term national prosperity.

Most analyses of trade agreements, both of prospective new trade agreements such as CETA and existing trade agreements such as NAFTA, assume that once market access is secured, participating firms will expand production to meet the new demand opportunities, and trade volumes will grow into this access if the firms are competitive. Recent commentaries on Canadian agri-food competitiveness in its bilateral trade with the United States often focus on traditional macroeconomic factors-exchange rate variations, shifts in domestic competitiveness, shifts in the competitiveness of our competitors within each other's markets. Much less attention is given to the managerial processes that actually make this occur, or to the day-to-day process and challenges that allow cross border trade to continue. These are particularly critical in the case for Canada-US agri-food trade, where the two-way trade is large, frequent, and economically significant to the industries involved.

This paper reviews the scale, significance and dynamics of the Canada-US agri-food cross border trade including the continued evolution of the regulatory agencies involved, and the critical role for improved managerial capacity in addressing the day-to-day operational challenges of cross border movement.

Nature and Scope of Canada-US Cross-border Movement in Agri-Food

Canada-US cross border agri-food trade has expanded over the recent decade (Appendix 1). In 2012, Canada-US agri-food trade exceeded \$44B (Can), with a small positive trade balance favouring Canada. The trade balance remains dynamic with significant fluctuations in product categories over time, and with shifts in consumer preferences within each country. This has occurred even as Canadian and US agri-food exporters and importers have had to deal with fluctuations in macroeconomic factors, increasing border security requirements of both nations, and continued differences in approach, definition, and processes in their respective agri-food regulatory agencies- including changing border infrastructure and human resource capacities at all border crossings.

Canada-US agri-food trade involves a wide range of fresh, processed and frozen foods, beverages, floral and nursery products, pre-packaged consumer foods/beverages, and bulk shipments of grains, oilseeds,

food oils among other products. The cross border movements between Windsor and Detroit (Appendix 2) illustrate this dynamic nature and variability in product flows. The total volumes of agri-food trade at those two border crossings alone exceeded \$15B in 2012, with the largest dollar volumes in prepared foodstuffs category in both directions. Variations in scale and complexity do occur at each and every border crossing which reinforce the challenges of properly managing the two-way flows of agri-food trade across the breadth of the Canada-US border.

Different Regulatory Challenges Facing Agriculture and Food Products

This diversity of agri-food product flows must be balanced with evolving regulatory structures and their historic and current differences between the two countries. Non-food manufactured shipments face the similar border security measures, but few sectors involve the variety of food safety, pesticide, animal health, environmental, soil residue, etc. issues as well as the inherent perishable nature of many agri-food products.

In the efforts to successfully trade agri-food products between the two countries, the differences in regulatory approaches, public acceptance of these differences (or even insistence on a sovereign right to proceed in a nation's own interest) require exporters and importers to respond to very different regulatory requirements. There are differences in legislation, regulatory authority, coverage, standards, measurements, and in the handling of real and perceived risks of agri-food product trade to the other nation's domestic food safety, environmental security and responsiveness to its own public. It is clear that some of these different regulatory challenges can and do limit smooth cross border movements. It is unclear if both governments and industry believe that only small changes to the regulatory systems and border security can be accomplished.

In 2011, Prime Minister Harper and President Obama launched two bi-national initiatives to improve cross border trade across all sectors- the Beyond the Border and Regulatory Cooperation Council. These initiatives built upon past industry and government efforts in both nations to reduce border costs while still fulfilling the needed regulatory measures. Current efforts to utilize the scale/consistency of product movements in other sectors to reduce daily cross border reviews are examples of these initiatives leading to real changes in successfully meeting needed border security and regulatory compliances but at reduced costs.

Both bi-national initiatives are well underway with a number of pilot projects involving the two border agencies, a number other regulatory agencies and departments, and the relevant firms/ industries on both sides of the border. A series of agri-food pilot projects were launched in 2011/12 (See Appendix 3 for list). Full completion and results of these pilots are still pending. These are positive developments but these efforts need to be completed, and if successful, widely promoted. The application of such efforts beyond the pilot program stages is not yet fully known. The anticipated successes of these pilot projects, and the proven success of similar initiatives in other sectors, offer the possibility of realigning industry practices to better meet demands of cross border movements. Such initiatives can involve new investments in technology and human resources so to decrease the daily costs of border crossings.

The Canadian Manufacturers and Exporters (CME) and other national trade associations, including those in the agri-food sector, fully support these initiatives and pilot projects. The capacity to develop and build upon successful examples of improved cross border trade in any sector, and seek its application to a wider community within that sector, or beyond, are key goals of these industry groups. Agri-food firms like other manufacturers can have similar capacity to ship identical products from same origins to the same destinations on a regular basis, which could lead to new methods of cross border reviews, inspections and verifications that regulatory processes are followed. These efforts- Customs Self Assessments- are examples of creative attempts to both address the national sovereignty for border security while reducing border costs and delays. These efforts do mean increased management capacity within the participating firms as well as the participating public agencies.

Different Transport Modes, Complex Inspection

Agri-food product trade movements occur by a combination of modes, with truck the dominant one. For example, in 2012, the total truck movement across all Ontario border crossings (all shipments; not just agri-food) totalled some 6.5 million trucks- a significant daily volume of truck traffic across those Canada-US border crossings. Each province with land/river border crossings will have sizeable truck movements on a daily basis. Rail and ship agri-food product movements are important, but generally are not on the same scale of daily product flows of truck traffic (Appendix 2). This places considerable emphasis on daily capacity of trucking companies, truck drivers, and other parties (e.g. customs brokers) in co-operation with agri-food exporters/importers to accomplish the successful movement of these multiple product lines with minimal delays across the common border. It also makes the managerial and physical capacity of border facilities in handling this traffic critical, as gaps in both can form potential choke points.

The variety, diversity, and the daily movements of product, primarily in truckload volumes, effectively increase the complexity of the regulatory systems in both countries. This creates a demand for smoother coordination/cooperation between shippers, carriers, border agencies, and the responsible agri-food regulatory agencies. The volumes of Canada/US agri-food trade demand a heightened level of bi-national cooperation, linkages, sharing of information, and agreement on definitions, rules, guidelines, and approaches to inspection/enforcement.

Managing and Innovating to Facilitate Trade

Cross border trade places additional demands on management capacity of firms involved in trade. As noted, there have not been many substantive economic analyses of the shifts in managerial capacity of Canada/US agri-food trade. The traditional focus is on broad market access, or macroeconomic factors, not as much on the capacity to adapt and innovate in this environment. The sustained ability to properly manage, and expand agri-food trade over time despite changes in border regulations, regulatory interpretations, and across a wide range of products must be acknowledged. The market gains are occurring within a dynamic consumer marketplace within the two countries, and major shifts to

different business approaches to key activities especially inventory control within agri-food to a "just-in-time" format, similar to more traditional manufacturing.

Agri-food firms do innovate and adjust to the information and logistical demands of a trading environment-not just to macroeconomic factors. The experiences of agri-food cross border participants in the past decade are good examples of the ongoing capacity to adapt to changed markets, regulations, border security and technology changes within a very competitive, integrated bi-national marketplace. An excellent illustration of this critical capacity to adapt is a recent article in *the Economist*¹ describing the development of the ocean-going container in the 1950's and its impact in facilitating trade. A study cited in the article suggests that the resulting "containerization" of cargo may have had a far greater effect on increasing global trade than trade agreements have.

Observations

It is unlikely that improved border security measures will be substantially relaxed throughout this decade. Agri-food firms and public agencies continue to adapt to the regulatory frameworks affecting products, modes of transport, and border security. It needs to be recognized that the complexity, diversity, and the differing technologies surrounding cross border agri-food trade are all evolving continually. These moving targets of agri-food regulatory frameworks facing private sector firms and public sector agencies introduce new management challenges to participating food firms and farms.

The recent passage and current implementation of the Food Security Modernization Act in the United States affects all food processing facilities/companies, including importers with updated and new rules for inspection, regulation, and shifts in operations as well as reporting. The US regulatory details are now coming into play, which will now require Canadian food exporters into the United States to realign their operations to meet the new US law, as it does with US food firms inside that nation. This tests the capacity to adapt, successfully continue operations, and to properly monitor and respond to new regulatory developments under this one piece of legislation

Infrastructure developments are also critical for cross border trade in all sectors. This is seen most clearly in the now decade long decision process to build a second bridge crossing at the Windsor/Detroit border- one of the key points in Canada/US agri-food trade. Moreover, in recent years, daily cross border trade operate within increasingly budget constrained public sector environment which in turn places new market challenges to swift, efficient and less costly border movements.

¹ "The Humble Hero", *Economist* May 18, 2013 <http://www.economist.com/news/finance-and-economics/21578041-containers-have-been-more-important-globalisation-freer-trade-humble>

Examining Canada/US cross border agri-food trade reveals the following characteristics:

- Agri-food trade involves a diverse, complex and at times very frail (fresh produce, floral and nursery products, live animals) set of products, compared with many other manufactured goods sectors;
- A wide variety of regulatory agencies are involved in the safe movement and handling of such products and regulatory requirements for environmental, food safety, waste, health of animals;
- Despite past and current efforts by both federal governments, regulatory co-operation rules and processes are not identical between the two countries or between similar agencies within same government;
- The managerial skills and experience of the border security and associated food/plant/animal regulatory agencies can vary between border points;
- The managerial skills of the shippers, carriers and customs brokers vary-with experience, scale of operation, ability to pay, and the regularity of product movements;
- The corresponding human resource, technology and IT investments needed by private and public sector firms or agencies are not identical or consistent among all participants, or at all border crossings.

The two bi-national initiatives identified earlier have the potential to greatly assist all sectors of the two economies in improving trade flows while still fulfilling the desired border security and regulatory requirements of both nations. The Regulatory Co-operation Council provides the best opportunity for long term resolution to these agri-food challenges if both federal governments and their respective industries persist in their efforts to complete and implement the current pilot projects. The success of these efforts could lead to much wider approaches to long term reduction in unnecessary differences in the regulatory requirements affecting cross border agri-food trade.

Conclusion

The Government of Canada has moved aggressively in recent years to expand market access for Canadian products and services-including those in the agri-food sector. There have been a number of smaller agreements, and Canada is currently involved in several major bilateral and multilateral initiatives. These, if successful, should assist the productivity and prosperity of the nation, and its citizens. These initiatives should also lead to shifting Canada's reliance on the US market.

However, the Canada/US agri-food trade is Canada's largest bilateral relationship. Diversifying trade while retaining opportunities for continued growth in each other's market would seem to be a more preferred strategy. For Canada/US cross border trade, it is critical that the scarce public and private resources focus increasingly on those product shipments not in line with border measures. This should, in turn, result in allowing greater amounts of trade-including agri-food trade, to flow more easily. These day-to-day operational challenges tend not to be reflected in trade policy analyses, but they do affect

overall product movements between the two countries, and ultimately the competitiveness of those traded products in the other nation's home market.

Increasing the managerial capacity of the industry participants to successfully adapt the above efforts from other economic sectors, as well as the success of other pilot project so as to accommodate such initiatives to exporters (importers) of lesser scale is a longer term possibility. For example, a number of Canadian agri-food exporters (importers) are of a scale of annual/daily product movement to be pilots for such Customs Self-Assessment. If proven successful, these pilots could be adapted to other food firms or farms, possibly smaller agri-food establishments, or more diverse trade, over time.

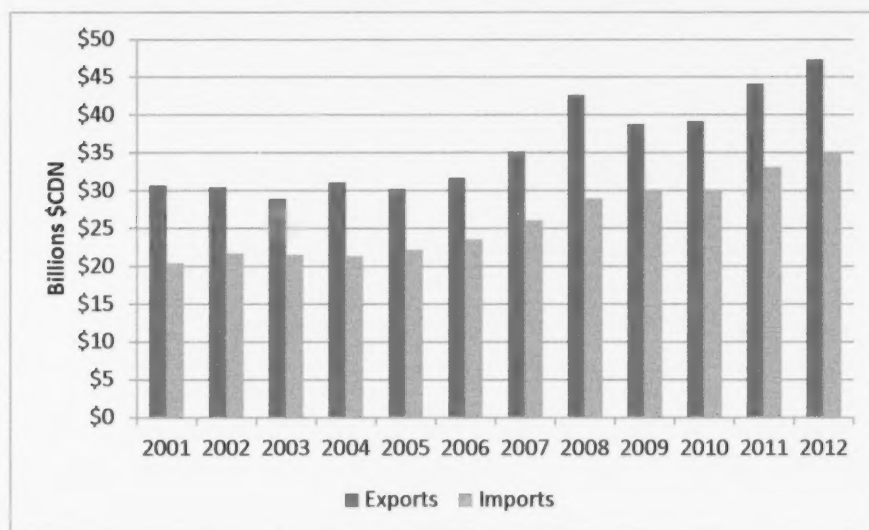
It is necessary for a number of the pilot projects under the two bi-national initiatives to be successfully implemented. Once success is proven and accepted, these initiatives can be adapted to broader industry participation. These efforts must be aggressively pursued if the Canadian agri-food sector is to achieve a significantly improved framework for its cross border movements. These are key areas of regulatory reform and action, and to be successful, will likely require enhanced managerial capacities within both industry and governments in order to expand the initiatives across the entire sector in both countries.

These are not simple additive exercises. There are major differences in regulatory regimes, outlooks, capacities, histories, and product differences in agri-food trade. The regulatory complexities, and variances in scale of agri-food product movement make the necessity of succeeding with the two bi-national initiatives imperative. It also underlines the necessity for both private and public sectors to continually re-invest in their management capacities to successfully adapt and succeed in this cross border trade. These investments must be accompanied by further innovations in process, technology, IT capacity and infrastructure.

At a time when the public policy focus seems to be on increased market access in a very competitive global marketplace, there is continued need for investment and further analyses of effective operations within Canada's most important bilateral agri-food trading relationship- one which has required considerable private and public sector to build, and now must be sustained in order to grow.

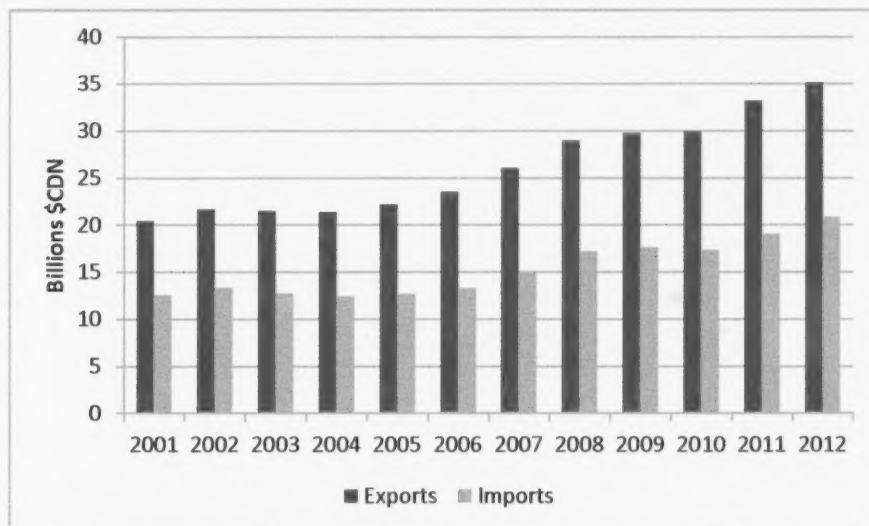
Appendix 1

Figure 1: Canadian Agri-Food Trade



Source: Industry Canada, Trade Data Online

Figure 2: Canadian Agri-Food Trade with the United States



Source: Industry Canada, Trade Data Online

Appendix 2

Key Canada-US Border Statistics

Length of the Border: 8,891 km, 119 US points of Entry/120 Canadian ports;

Daily truck traffic: 28,814 (2010)

Daily road trade: \$797M (Cdn) (2010)

Daily rail trade: \$223M (Cdn) (2010)

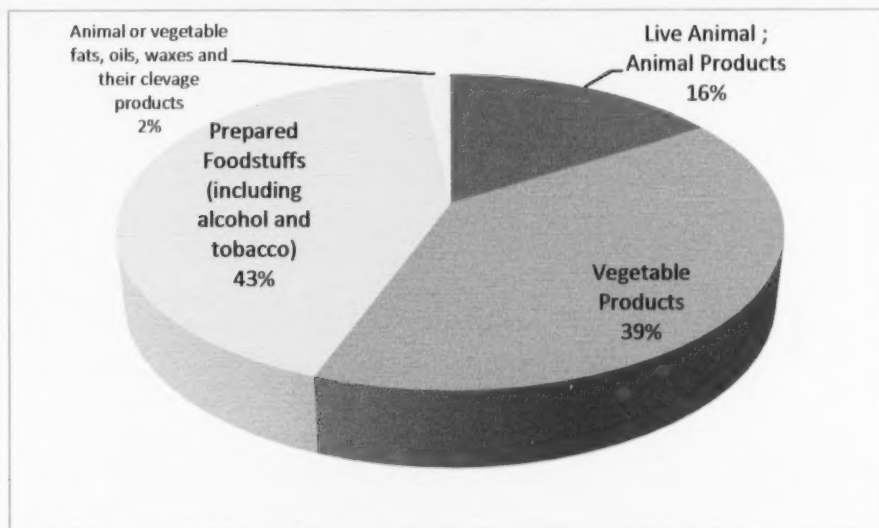
Major Border Crossings- Canada/US

- Douglas Crossing-Peace Arch- Surrey B.C. and Blaine, Wash;
- Fort Frances-International Falls International Bridge- Fort Frances, Ont and International Falls, Minn;
- Baudette-Rainy River International Bridge-Baudette, Minn and Rainy River, Ont;
- Sault Ste Marie International Crossing- Sault Ste. Marie, Ont and Sault Ste. Marie, Mich
- Blue Water Bridge- Sarnia, Ont and Port Huron, Mich.;
- St. Clair Tunnel (Sarnia and Port Huron);
- Windsor-Detroit Tunnel;
- Ambassador Bridge- Windsor, Ont and Detroit, Mich;
- Peace Bridge- Fort Erie, Ont and Buffalo, NY;
- Rainbow Bridge- Niagara Falls, Ont and Niagara Falls, NY;
- Whirlpool Rapids Bridge- Niagara Falls, Ont and Niagara Falls, NY;
- Queenston-Lewiston Bridge- Queenston, Ont and Lewiston Bridge NY;
- Thousand Islands Bridge- Hill Island, Ont and Wellesley Island, NY;
- Ogdensburg-Prescott International Bridge- Johnstown, Ont and Ogdensburg, NY;
- Three Nations Crossing- Cornwall, Ont and Massena, NY;
- Blackpool Border Crossing- Saint-Bernard-de-Lacolle, Que and Champlain, NY.

Breakdown of Trade at Selected Border Points

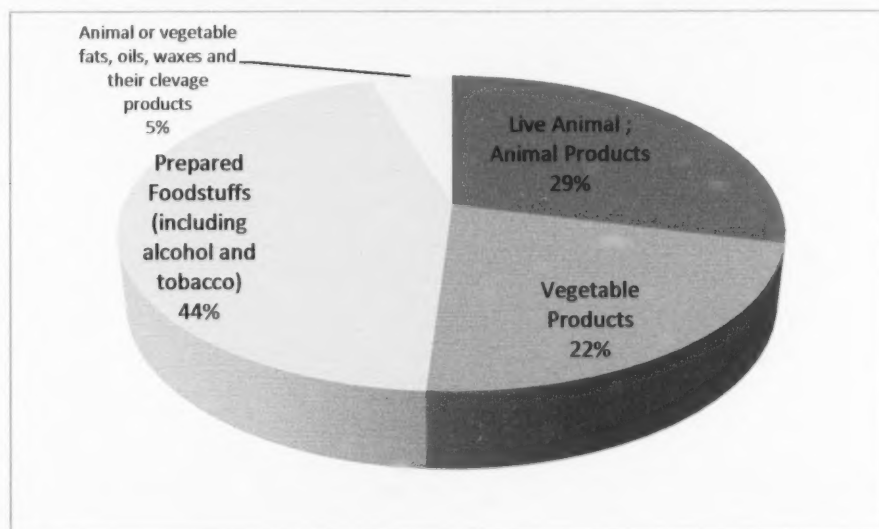
Windsor-Detroit

Figure 3: Agri-Food Imports at Windsor-Detroit 2012, Value \$6.5B CDN



Source:US Bureau of Transportation Statistics

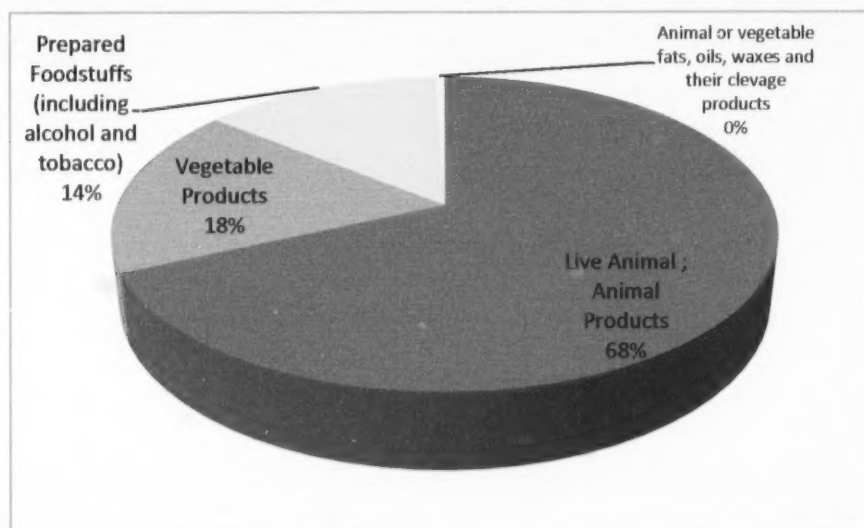
Figure 4: Agri-Food Exports at Windsor-Detroit 2012, Value \$1.2B CDN



Source:US Bureau of Transportation Statistics

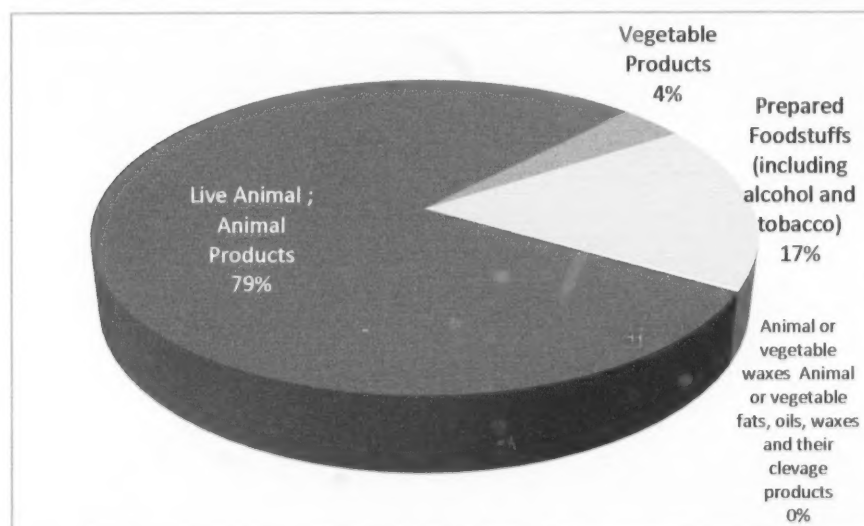
Saint Stephen- Calais

Figure 5: Agri-Food Imports Saint Stephen – Calais 2012, Value \$263 Million CDN



Source:US Bureau of Transportation Statistics

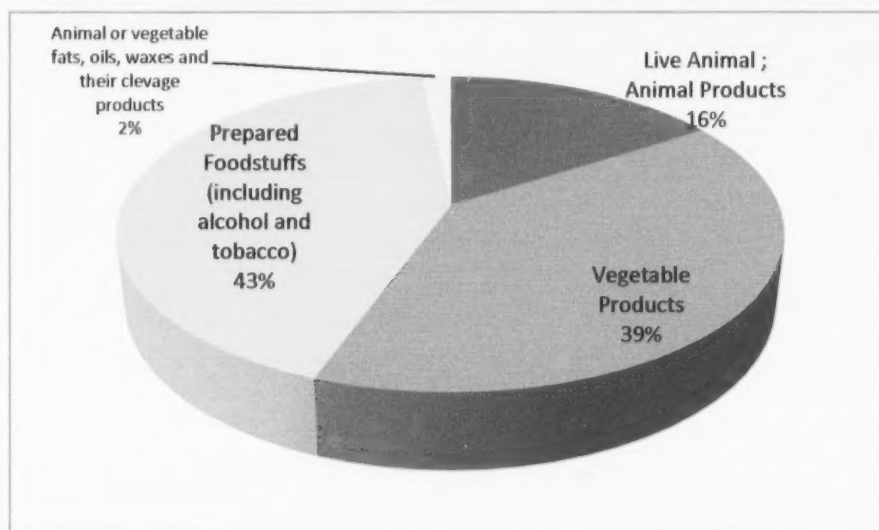
Figure 6: Agri-Food Exports Saint Stephen – Calais 2012, Value \$883 Million CDN



Source:US Bureau of Transportation Statistics

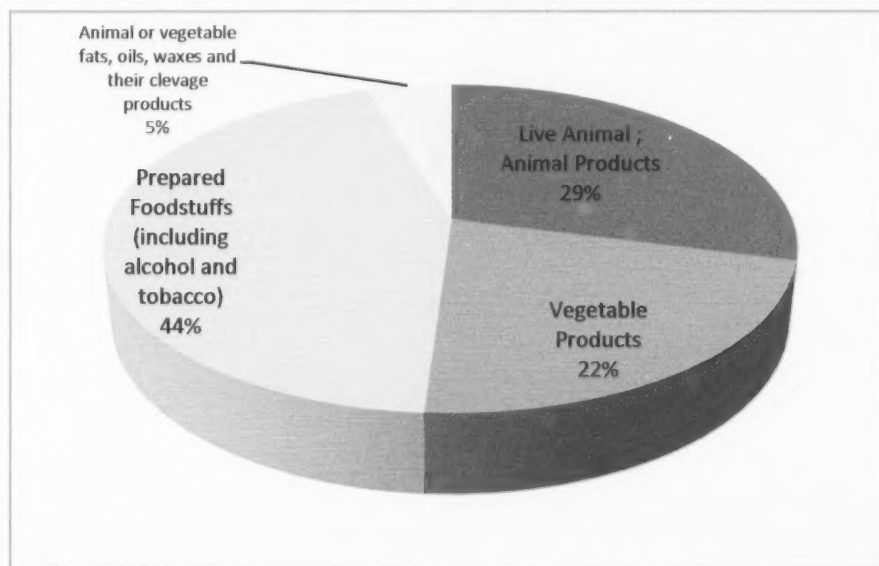
Surrey-Blaine

Figure 7: Agri-Food Imports Surrey – Blaine 2012, Value \$2.5B CDN



Source: US Bureau of Transportation Statistics

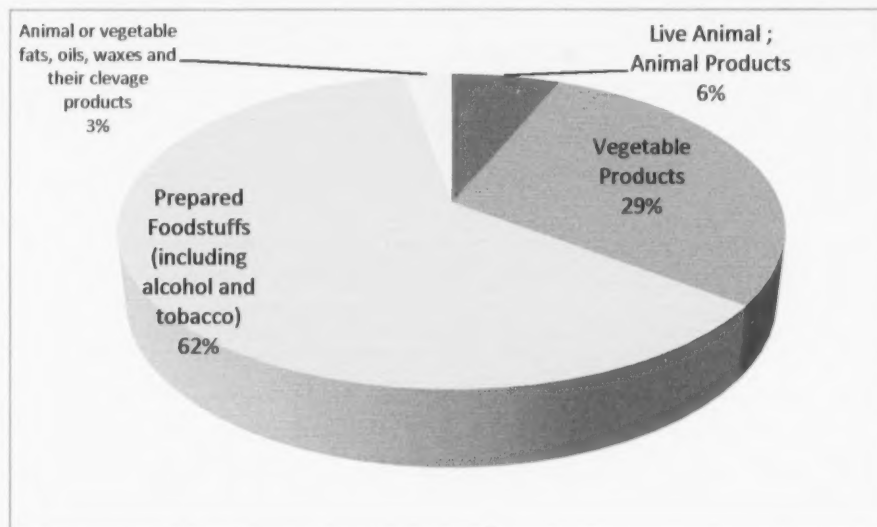
Figure 8: Agri-Food Exports Surrey – Blaine 2012, Value \$1.6B CDN



Source: US Bureau of Transportation Statistics

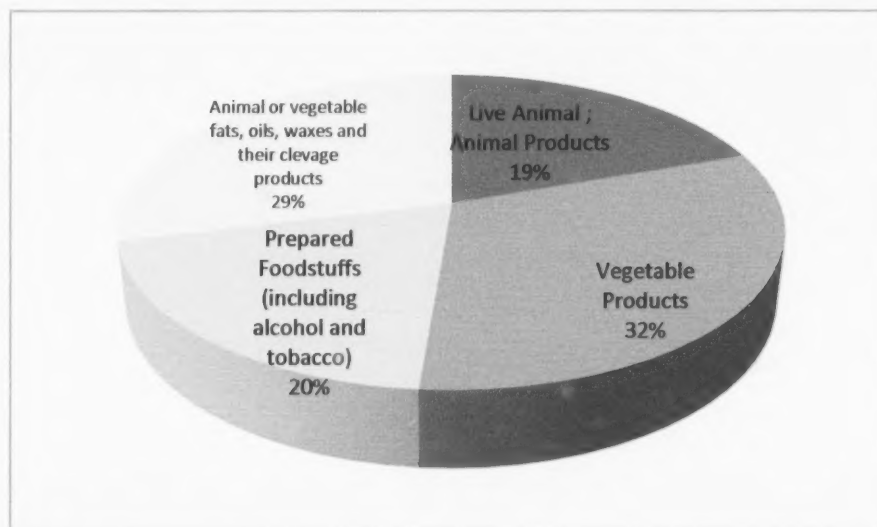
Emerson-Pembina

Figure 9: Agri-Food Imports Emerson - Pembina 2012 Value \$937 Million CDN



Source: US Bureau of Transportation Statistics

Figure 10: Agri-Food Imports Emerson - Pembina 2012 Value \$2.49B CDN



Source: US Bureau of Transportation Statistics

Appendix 3

Regulatory Cooperation Council (RCC) Activities

On June 20, 2013, the RCC held a stakeholder workshop in Washington, providing updates on all 29 working groups, and future directions.

RCC Agriculture and Food Working Groups - Updates

1. **Crop Protection Products Working Group:-** Action Items 1. Encourage Joint Submission of Use Expansions and Fully Aligned Labels; 2. Develop Joint Guidelines for Residue Trials; 3. Address Obstacles to Joint Registration; and 4. Align Data Collection Processes and Procedures for Residue Trials. All 4 Action items are moving forward through identified steps towards pilot project implementations, evaluation of pilots and process changes as well as completion of gap analyses .
2. **Equivalence of Meat Safety Systems:** Action Items- 1. Streamline Requirements and Procedures related to equivalency; 2. To Develop a proposal that outlines the process by which agencies will seek to align the framework of the two countries' inspection systems, FSIS and CFIA will formalize an ongoing communication structure on technical and regulatory food safety issues.
3. **Perimeter Approach to Plant Protection:** Action Items-1. Develop a Framework for a Canada-US Perimeter Approach to Plant Protection; 2. NAPA Pilot-Coordination of approaches to regulatory oversight-Chrysanthemum White Rust (CWR); 3. NAPA Pilot- Streamline commodity certification process-Greenhouse Certification Program (GCP)
4. **Veterinary Drugs:** Action Items- 1. Complete simultaneous review pilot project for drug submissions made simultaneously in both countries, with a view to develop a mechanism that, subject to some acceptability criteria, would allow for simultaneous submissions and collaborative reviews; 2. Through simultaneous review pilot project, continue to build upon scientific collaboration in the establishment of comparable human food safety standards, including further alignment of MRLs and tolerances whenever possible.
5. **Mutual Reliance of Food Testing Results:** Action Items- 1. Develop and implement Guiding Principle for mutual acceptance of laboratory accreditation; 2. Establish a permanent mechanism to maintain mutual acceptance of laboratory accreditation.
6. **Common Approach to Food Safety:** Action Items- 1. Advance system comparability based upon FDA's Comparability Review process as outlined in public hearings held in March 2011; 2. FDA-Canada are committed to collectively strengthening food safety in both countries, with the CFIA-HC-FDA Joint Committee on Food Safety (JCFS) working to develop an arrangement based upon

the Canada-US relationship, that will focus on regulatory cooperation on common food safety priorities (e.g. collaboration on imports).

7. **Financial Protection to Produce Sellers:** Action Items-1. Develop comparable approaches to financial risk mitigation tools for produce sellers.
8. **Meat Cut Nomenclature:** Action Items- 1. Create a common approach to meat cut nomenclature; 2. Establish an ongoing systemic regulatory alignment mechanism or framework.